

# Weekly Macro & Markets View

## Highlights and View

- **China's October activity and lending data disappoint**

We believe both targeted monetary and fiscal stimuli will accelerate next year, while the deleveraging process will not be abandoned. Today's OMO rate cut by 5bps confirms our view.

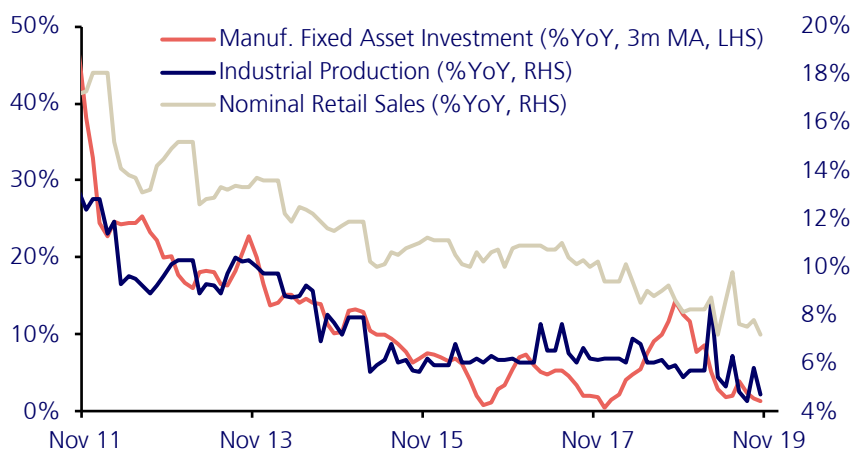
- **Japan's economy grew less than expected in Q3, up only an annualised 0.2% QoQ vs. an upward revised 0.9% in Q2**

Weaker inventories reflect stronger rush demand before the consumption tax hike, while weaker service exports follow a sharp fall in Korean tourists. Both are not likely to urge the Bank of Japan to change its policy.

- **German GDP unexpectedly expands 0.1% QoQ in Q3, after contracting by 0.2% in Q2**

The first estimate of Q3 growth was better than expected and Germany has avoided a technical recession. However, economic conditions in the Eurozone's largest economy remain fragile.

## China's economic data disappoint, but not all is bad



Source: NBS, Bloomberg

It was a disappointing week for China as economic indicators for October came in far below consensus expectations and Chinese equities suffered a setback. Activity data confirmed that the positive uptick in September was obviously just a blip. Industrial production was up only 4.7% YoY, with the growth rate close to the recent 30-year low. Particularly private firms were negatively affected, with crude steel and cement production even falling YoY, not least due to tight air pollution controls around the National Day celebrations. Capital spending growth was up a meagre 3.7% YoY, with private investment coming close to a standstill. It is a concern that infrastructure investment growth slowed significantly, dragged down by the tighter fiscal discipline of public entities. The State Council cut the minimum capital requirement ratio in order to unblock projects that did not receive enough bank lending. However, it must be noted that high-tech firms held up quite well, showing double-digit percentage investment increases. Meanwhile, nominal retail sales growth tumbled to a 20-year low of only 7.2% YoY. Auto sales were down 3.3% YoY, while household appliance sales were up only marginally, probably a reflection of holding back for the 'singles day' online sales extravaganza last Monday. At first glance lending data for October looked horrible, but seasonal patterns show that they were only slightly worse than in previous years. We highlight that the loan structure is improving.

## Eurozone: Germany avoids recession, conditions remain soft

Germany avoided a technical recession, after growth unexpectedly rebounded in Q3. The first estimate of Q3 GDP growth came in at +0.1% QoQ versus expectations of a contraction by -0.1% QoQ. This followed a revised decline of -0.2% QoQ in Q2. While a detailed breakdown is not yet available, the German statistics office mentioned that consumer and government spending rose, but that business investment fell. Given deteriorating employment conditions, consumer spending growth may moderate over the coming quarters, while investment is

likely to remain soft as uncertainty surrounding the trade war drags on. The upshot is that despite avoiding a technical recession, economic conditions in Germany remain weak. Nevertheless, investors appear more upbeat recently, with the German ZEW expectations survey of analysts and institutional investors rebounding the most since 2014 last week and the Euro Stoxx index up around 3% so far in November.

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## US: More signs of a peaking job market

Continuing its recent trend with the fifth positive week in a row, the S&P 500 reached yet another record high on increasing optimism regarding an imminent agreement between China and the US in phase one of a trade deal. Markets are starting to look a little stretched in the near term and could become vulnerable to disappointments. The latest batch of economic data delivers a mixed message. Small business optimism moved up slightly. The jobs-hard-to-fill measure ticked down to the lowest in a year, which is good for business but could indicate that the labour

market has peaked. The same can be said about last week's rise in initial jobless claims to the highest since June, but the data are volatile and it's too early to call it a trend. Retail sales recovered in October from their weakness the month before while the slowdown in industrial production accelerated to -0.8% MoM, the biggest monthly fall in more than a decade, though the number was distorted by the strike at General Motors.

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## UK: No recession but growth remains modest

Although the economic environment remains challenging, as indicated by another fall in industrial and manufacturing production in September, GDP growth rebounded to 0.3% QoQ in Q3 after the drop in Q2. Nevertheless, this still leads to a very modest 1.0% YoY growth rate, a post-recession low. Not surprisingly given the uncertain outlook and the global slowdown, business investment fell for the second quarter in a row as firms remain reluctant to spend. Exports picked up, partially helped by foreigners increasing their stockpiles ahead of the (now delayed) Brexit

deadline at the end of October. Meanwhile, consumer spending grew at a steady pace helped by a solid labour market. The unemployment rate ticked back down to 3.8% in September. Despite the tighter labour market wage growth slowed down to 3.6% YoY from 3.8%, which still results in solid real wage growth as the inflation rate also receded to 1.5% from 1.7% in October. However, a fall in retail sales indicates that consumer spending softened entering the fourth quarter.

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## Switzerland: The SNB steps up forex interventions

Domestic sight deposits held at the Swiss National Bank rose by over CHF 20bn over the past four weeks. The pace of increase was the highest since early 2015, when the SNB came under pressure to abandon the currency peg against the euro as the ECB launched large scale asset purchases. The recent increase suggests that the SNB has taken significant measures to weaken the franc and, while the current situation is not as severe as in 2015, interest rate spreads between Switzerland and Germany have compressed following the ECB decision to cut rates and restart QE in

September. Despite this, the franc remains strong, with the EURCHF below 1.10 last week. This shows how difficult it is for the SNB to decouple from ECB policy, given the focus on a stable currency. Inflation has turned negative again, with consumer prices falling by 0.3% YoY. The economy has slowed sharply and although we expect activity to stabilise, growth is weak. Looking forward, we no longer rule out a further SNB rate cut, unless pressure on the franc eases substantially over the coming weeks.

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## Covered Bonds: The ECB boosts the market, as blue bonds follow the green bonds

We expect covered bond spreads to remain supported by strong supply/demand technicals, namely the ECB purchases, along with more than EUR 31bn of redemptions scheduled for 2020. The ECB is now a key player in the new issue order book, as well as in the secondary market, as it bought over EUR 1bn in the first week. Covered bond supply benefited from the recent pickup in yield as some long-dated bonds are now positive yielding. Green and social/sustainable covered bond markets are still only a niche, but volumes have been growing recently with

more issuers using covered bonds not only to fund mortgages but also public sector loans. Luxembourg recently became the first country to have a green covered bond law for assets linked to renewable energy. Deutsche Kreditbank also created and issued the first blue social covered bond. Funds will be used to finance public water and water management facilities. We expect more issuers and jurisdictions to enter and develop this market segment.

## What to Watch

- The G3 flash PMIs will be closely watched for signs of a bottoming out in global growth.
- We do not expect Bank Indonesia to change its policy rate on Thursday following 100bps of cuts this year. Export data for October will be reported in Japan, Taiwan and Singapore, while CPI data for October will be released in Japan, Hong Kong and Malaysia. Thailand's GDP for Q3 will be reported, while it is likely that Singapore's Q3 GDP will be revised up.

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